

Message Text

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ORIGIN ARA-20

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FM SECSTATE WASHDC

TO AMEMBASSY TEGUCIGALPA PRIORITY

C O N F I D E N T I A L STATE 029640

E.O. 11652: GDS

TAGS: EIND, EAGR, HO, US

SUBJECT: IMPLEMENTATION OF DECREE LAW 103

1. DEPTOFFS HELD LONG, FRUITFUL DISCUSSION ON FEBRUARY 6 WITH ERNEST B. FONTAN, PRESIDENT OF HAWTHORNE EXPORT LUMBER CO. (HELCO) CONCERNING STATUS UNDER DECREE 103. FONTAN, WHO RETURNED FROM TEGUCIGALPA ON FEBRUARY 3, CLAIMED NO KNOWLEDGE OF TAX LIEN AGAINST HELCO (SEE TEGUCIGALPA 0399) AND SAID HE UNDERSTOOD FROM EMBASSY AND GOH THAT HAWTHORNE WAS TO BE USED AS "STANDARD BY WHICH OTHER COMPANIES TO BE JUDGED." HE SAID HAWTHORNE HAS PAID ALL TAXES AS CERTIFIED IN 1971 BY GOH TAX AUDITORS WHO REVIEWED HELCO BOOKS IN NEW YORK. FONTAN SAID HELCO IS INTERESTED IN STAYING IN HONDURAS BUT IS CONCERNED BY APPARENT COHDEFOR INABILITY TO DECIDE HOW TO TAKE OVER INDUSTRY AND BY FONTAN'S JUDGMENT THAT COHDEFOR WILL BE UNABLE TO MANAGE THE INDUSTRY.

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HE SAID HELCO HAD OFFERED TO PERMIT COHDEFOR TO BUY 51

PERCENT INTEREST AND PAY COMPENSATION OUT OF PROCEEDS OF SALE OF LUMBER (DOLS. 10 PER THOUSAND BOARD FEET). HE SAID REYES HAD TURNED DOWN THE OFFER BUT PROPOSED NO ALTERNATIVE.

2. FONTAN PARTICULARLY CONCERNED ABOUT PAYMENT FOR EXPORTED LUMBER. HE SAID COHDEFOR PLAN WHEREBY EXPORTERS WERE TO RECEIVE A FIXED PRICE, PLUS APPROVED COSTS, PLUS 15 PERCENT PROFIT HAS LONG SINCE BEEN ABANDONED. CURRENTLY HELCO

COLLECTS ON INVOICES, RETAINS 80 PERCENT OF THAT AMOUNT AND REMITS 20 PERCENT TO COHDEFOR. FONTAN SAID THAT HELCO'S 80 PERCENT DOES NOT COVER COSTS. HE SAID HELCO HAS USED IT TO PAY OFF FINANCING DEBT TO BARCLAY'S BANK BUT IS UNABLE TO PAY OFF PRODUCERS FROM WHOM IT PURCHASES LUMBER OR ITS YARD HELP. HE ADDED THAT PRODUCERS CONTINUE TO DELIVER LUMBER TO HELCO YARD BUT ON AN INFORMAL CONSIGNMENT BASIS. HE ANTICIPATED PROBLEMS FROM THIS BECAUSE PRODUCERS ARE CASH POOR AND OFTEN BORROW FROM HELCO FOR THEIR OPERATING CAPITAL. IF HELCO CANNOT PAY THEM, THEY WILL HAVE TO LAY OFF CUTTERS, CAUSING SERIOUS UNEMPLOYMENT PROBLEM. HELCO YARD LABOR IS ALSO A PROBLEM BECAUSE THEY ARE UNIONIZED (FONTAN CLAIMED THE ONLY UNIONIZED YARD IN HONDURAS). WHEN NOT PAID THEY WILL CLAIM NOT ONLY WAGES BUT L400,000 IN SOCIAL BENEFITS, WHICH HELCO DOES NOT HAVE. HE EMPHASIZED THAT THESE FACTORS, AND OTHERS, MEAN THAT HELCO, AS A COMPANY DEPENDENT SOLELY ON EXPORTS FOR ITS SURVIVAL, WILL SUFFER IRREPARABLE HARM IN THE SHORT-TERM FUTURE IF COHDEFOR DOES NOT DETERMINE STANDARDS UNDER WHICH FOREIGN COMPANIES CAN OPERATE.

3. LATE IN AFTERNOON FEBRUARY 6 FONTAN CALLED THE DEPARTMENT AND INFORMED DEPTOFFS THAT A TAX LIEN OF L487,000 ("ALMOST EXACTLY THE AMOUNT OF OUR FIXED INVESTMENT") HAD BEEN FILED AGAINST HELCO THAT DAY. HE SAID COHDEFOR ALSO INFORMED THE COMPANY THAT IN THE FUTURE ALL INCOME FROM THE EXPORT OF LUMBER MUST BE SENT TO COHDEFOR AND THAT COHDEFOR WOULD THEN DISTRIBUTE 80 PERCENT TO HELCO IN LEMPIRAS. FONTAN CLAIMED THIS LAST MOVE IS IN RESPONSE TO HARD PRESSURE PRODUCERS ARE PUTTING ON

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COHDEFOR BECAUSE THEY HAVE NOT BEEN PAID. HE SAID THAT HE ANTICIPATES THOSE LEMPIRAS WILL NOT BE CONVERTIBLE IN ORDER TO FORCE EXPORTERS TO PAY PRODUCERS RATHER THAN BANKS. HE SAID THAT THIS ACTION PLACES THREAT OF EXPROPRIATION MUCH CLOSER THAN BEFORE.

4. ALSO ON FEBRUARY 6 DEPTOFFS TALKED AT LENGTH WITH MICHAEL M. WEATHERLY, PRESIDENT OF VIKING OIL RESOURCES, INC., OWNER OF SICRE AND MARACA, AND ATTORNEYS FOR

VIKING. PURPOSE OF VISIT BILLED AS EXCHANGE OF INFORMATION AND WEATHERLY INDICATED VIKING WILL NOT BE FORCED TO ULTIMATE DECISION (ON LIQUIDATION) UNTIL END OF MARCH. DEPTOFFS REPEATED VIEW THAT GOH APPEARED TO BE DESIROUS OF COOPERATING WITH CORPORATIONS AND THAT WE HOPE FIRM ARRANGEMENTS WILL BE WORKED OUT BEFORE DRASTIC STEPS BECOME NECESSARY. VIKING REPS SAID THEY ALSO UNDERSTAND THAT GOH IS COOPERATIVE BUT EXPRESSED SOME DOUBTS ABOUT COHDEFOR ABILITY TO ORGANIZE AND ABILITY TO OBTAIN THE

KIND OF FINANCING NECESSARY TO BUY 51 PERCENT OF FOREIGN COMPANIES. THEY EXPRESSED BELIEF THAT PRIVATE HONDURAN INVESTORS FOR THE LUMBER INDUSTRY NON-EXISTENT AND THAT COHDEFOR ITSELF WILL BE FORCED TO BUY 51 PERCENT. THEY ALSO SAID THAT SHOULD GOH NOT BE FORTHCOMING IN WORKING OUT SATISFACTORY ARRANGEMENTS VIKING WILL PRESS FOR APPLICATION OF ANY APPLICABLE U.S. LEGISLATIVE SANCTIONS.

5. COMMENT: DEPARTMENT APPRECIATES RECENT EMBASSY REPORTING ON THIS SUBJECT AND FEELS THAT DECISION ON HOW TO PRESENT POINTS RAISED IN STATE 018691 TO GOH IS BEST LEFT TO EMBASSY. IMMEDIATE CONCERN HERE IS NOT WITH GOODWILL OF GOH (WHICH IS IRREVELANT IF UNCOMPENSATED TAKING OCCURS) NOR WITH ULTIMATE EFFECT OF DECREE 103. PROBLEM APPEARS, FROM CONVERSATION WITH EXPORTERS, TO BE ONE OF GOH AND COHDEFOR ABILITY TO DEAL WITH THE SHORT-TERM PROBLEM OF ORGANIZING THE EXPORT INDUSTRY. UNFORTUNATELY, IF TALE TOLD BY FONTAN ACCURATELY REPRESENTS HELCO POSITION AND IS REPRESENTATIVE OF SITUATION OF MANY EXPORTERS, COHDEFOR DOES NOT HAVE A LONG PERIOD TO RESOLVE THE PROBLEM BEFORE EXPORTERS IRREPARABLY
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HARMED, A SITUATION OF WHICH WE HOPE YOU CAN MAKE GOH FULLY AWARE. OTHERWISE, BY TIME GOH REALIZES SERIOUSNESS OF PROBLEM IT MAY BE TOO LATE. DEPARTMENT WOULD APPRECIATE EMBASSY ANALYSIS OF ACTUAL POSITION OF EXPORTERS AND THEIR PROSPECTS AS WELL AS EMBASSY FEEL FOR ABILITY OF COHDEFOR TO COME TO GRIPS WIT
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